



## Green accounting in India: A conceptual framework

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### Abstract

Green accounting, known as environmental accounting, is a contemporary idea that involves the inclusion of environmental assets and resources in company financial statements. Environmental accounting aims to expand accounting frameworks beyond traditional measures of economic performance by capturing assets not typically recorded in financial statements. These deficiencies arise when the different expenses associated with exploiting the environment are not accounted for, often being seen as external factors that can be shifted onto others or delayed. Besides traditional accounting for tangible expenses like materials, labor, and energy, green accounting also aims to include intangible factors such as pollution costs, social effects, and the benefits derived from innovative technology. Accountants may find it difficult, though not impossible, to quantify the "soft" costs.

**Keywords:** Conventional accounting, environmental accounting, green accounting

### Introduction

Green accounting is a form of accounting which aims to include environmental expenses in the financial outcomes of business activities. Green accounting evaluates the effects of human actions on the environment and natural resources, not just the financial consequences. The beginning of the accounting profession in the 19th Century occurred during a period of empire building and extensive economic growth. The end of the 20th Century saw a realization of environmental constraints on economic activities, resulting in the development of various accounting methods to assess the impact of human actions on the earth's ecosystems and resources. These methods can all be referred to as green accounting in general. It is also known as resource accounting or integrated accounting. Green accounting encompasses all aspects of traditional accounting. It generates reports for internal use, aiding in management decisions regarding pricing, overseeing overhead and capital budgeting, and for external use, sharing environmental information with the public and financial community. Businesses show interest in environmental accounting as a means to evaluate the costs and benefits of projects, as well as to establish new accounting rules for assessing their long-term performance and risks.

Industrialization has led to numerous environmental issues. Significant environmental problems have emerged in past years as a result of uncontrolled manufacturing activities impacting ecological systems. Severe events like the ozone layer depletion, overexploitation of natural resources, global warming, air pollution, and toxic waste are damaging the world and the economy. Therefore, a growing interest in green or environmental accounting. The aim of environmental accounting for sustainable development is to measure and share information on the impact of different business operations on sustainable development. Sustainable accounting is quickly becoming more popular as a business mindset, particularly on a global scale in the current millennium.

Various external factors, such as the level of awareness of the enterprise's administrators, institutional and regulatory barriers, the size of the enterprise's activities, and other

elements, can impact green accounting for sustainable development. Sustainability is commonly defined as the integration of ecological, social, and financial metrics because they are seen as interdependent. Businesses are required to provide comprehensive environmental information that covers all aspects of the company, such as value creation, strategic planning, risks, opportunities, and performance in achieving strategic goals. Many corporations' behaviors have immediate negative impacts on the general public, leading to conflict between communities and these businesses. Tensions are increasing in Africa between residents and manufacturing, oil, and mining companies, with numerous stories of uprisings by residents against businesses leading to damage to assets, casualties, and legal battles. Humanity's ability to survive in the long run relies on humans adopting environmental awareness. In recent years, there has been a growing worry among the public regarding the deterioration of the environment. Damage to land and water negatively impact business operations and hinder efforts to increase profits while minimizing harm to the environment. Many businesses are less worried about environmental issues because industry growth positively impacts workforce integration, leading to improved economic productivity.

### Importance of green accounting

Changes in the environment not only impact the environment itself but also have a negative effect on the economy as a whole. It is widely understood that economic changes directly impact changes in businesses. It is crucial to recognize that the Gross Domestic Product (GDP) of a nation can be influenced by environmental and climate alterations.

Hence, it is the most effective instrument for businesses to comprehend and handle the possible trade-off between conventional economic objectives and environmental objectives. It also enhances the valuable data for examining policy matters, particularly when such crucial information is frequently disregarded.

Therefore, it is important for businesses to incorporate environmental costs into their accounting systems in order to grasp the meaning of "better lose the saddle than horse" and comply with this need promptly.

### Green accounting in India

In India, green accounting has become more significant recently due to various environmental issues like air pollution, water scarcity, and climate change. To address these challenges, the Indian government has put in place a range of policies and initiatives to support sustainable development and incentivize companies to embrace eco-friendly accounting methods.

The Indian government launched the National Green Accounting System (NGAS) in 2014 as a specific measure. The goal of NGAS is to combine environmental and economic accounting by including both environmental expenses and advantages in the national accounts. The NGAS also comes with a group of environment-related indicators to track advancements towards sustainable development objectives.

Furthermore, the Indian government has implemented multiple policies and regulations to encourage environmental sustainability, including the National Action Plan on Climate Change and the Swachh Bharat Abhiyan (Clean India Mission). These strategies and efforts have motivated companies to embrace eco-friendly accounting methods, like carrying out audits to assess environmental impact, disclosing environmental achievements, and establishing eco-friendly management systems.

In India, there is a growing emphasis on green accounting as businesses and policymakers understand the importance of balancing economic growth with environmental sustainability.

### Process of green accounting

The company must decrease their expenses in order to remain profitable." In order to stay profitable, the company needs to reduce their costs.

- The initial step in green accounting involves identifying the firm's environmental reporting parameters. The company identifies various reporting parameters during the process, including environmental safety, public health, environmental protection, energy conservation, corporate sustainability, waste management, and utilization of renewable energy sources like wind, solar, and hydro power. The cat chased the mouse around the house but couldn't catch it.
- The next step involves identifying the environmental variables that impact the organization. The company clearly outlines how each parameter will be carried out and determines the criteria for measuring each parameter in the future. The new marketing campaign increased sales by 30% in just one month.
- The organization in the third stage of the process sets environmental goals for the short and long term. The organization guarantees that the short and long term are interconnected environmentally.
- The next phase of green accounting involves creating performance indicators like environmental guidelines, health and safety standards, energy saving methods, and waste management practices for the company to implement.
- The fifth phase involves assessing environmental performance indicators, which can be either qualitative or quantitative. For example, quantitatively measure environmental policy frameworks and waste management frameworks. The last step in this accounting process involves including the

environmental performance outcomes in the annual company accounts and merging it with the financial performance to demonstrate the environmental influence on the firm's financial performance.

### Benefits of green accounting compared to conventional approaches

Green accounting, also referred to as environmental accounting or sustainable accounting, provides multiple benefits compared to conventional methods. Green accounting offers a more thorough insight into the actual costs and benefits of business activities by taking into account externalities commonly disregarded in traditional methods.

Examines Externalities Overlooked in Conventional Approaches Green accounting has a major benefit in its capability to take into account externalities that are usually ignored in conventional approaches. Externalities are expenses or advantages that are not included in the prices set by the market. Pollution costs from industry are typically paid for by society as a whole instead of the companies causing the pollution. Green accounting considers these external factors, providing a more precise evaluation of the overall influence on the environment and society allows for improved decision-making.

Green accounting helps improve decision-making processes by considering environmental costs and impacts. It offers important data on the lasting effects on natural resources and ecosystems. This allows policymakers, businesses, and individuals to make well-informed decisions that emphasize sustainability and efficient use of resources. By having this information, stakeholders can assess different choices and choose the ones that reduce environmental damage and increase social welfare. Encourages the use of eco-friendly techniques and optimal use of resources. Green accounting also helps promote sustainability and efficient use of resources. By incorporating environmental expenses in financial documentation, it highlights the significance of preserving natural resources. This promotes businesses to embrace eco-friendly methods like minimizing waste production, utilizing energy-efficient technologies, or supporting renewable energy sources.

Green accounting aids in recognizing possible threats and advantages tied to environmental aspects for companies or economies. Through examining data related to resource usage, pollution output, and waste production trends, it identifies areas for potential enhancements.

### Challenges of green accounting

Challenges faced in executing Green Accounting and the path ahead.

Successfully integrating green accounting into economic frameworks requires addressing various challenges. These challenges consist of data availability, methods for valuation, and political determination. Availability of data one of the main issues in Green Accounting implementation is the presence of precise and trustworthy data. Comprehensive data on resource usage, pollution, and ecosystem services is necessary for accurately assessing the impact of economic activities. Yet, acquiring this information may prove challenging because of factors such as constraints on resources, variability in methodologies, and obstacles in collecting data from various industries.

**Methods used to assess the worth or value of something**

Accurately assessing the value of ecosystem services poses another important obstacle in the implementation of green accounting. Ecosystem services are the advantages that people receive from the environment, like fresh air, purifying water, storing carbon, and protecting biodiversity. Assigning a monetary value to these intangible services is challenging because of the various perspectives of stakeholders and the difficulty in quantifying their worth. There are various ways to evaluate things, but it's difficult to choose a method that takes into account both social preferences and environmental importance. Will power in politics Political will is essential when it comes to carrying out green accounting. Governments need to make sure environmental sustainability is given equal importance as economic growth. Nevertheless, some interest groups or industries might resist green accounting due to concerns about its impact on their profit margins or competitive edge.

**Suggestive measures**

Here are some ways that can be effective to overcome the above challenges:

- Standardized methodologies can be developed for collecting data on resource consumption, pollution levels, and ecosystem services.
- Best policy and practices can be shared among countries to improve data collection systems.
- Valuation techniques can be refined through collective efforts and deliberations.
- Awareness among the population about the importance of green accounting can be raised, encouraging more countries to embrace this approach.
- Overcoming resistance requires strong leadership and effective communication about the long-term benefits of incorporating environmental considerations into economic decision-making.

**Conclusion**

To sum up, green accounting is important in achieving sustainable development by providing a comprehensive framework to measure and manage the negative effects on the environment. It enables organizations and governments to account for the costs and benefits associated with commercial activities, ensuring that economic development is achieved while minimizing environmental harm. By incorporating environmental factors into accounting practices, decision-makers can make informed choices that balance economic prosperity with ecological responsibility. After all, it is all about securing our present and preserving the future. Conclusions:

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